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John Doe

EDMP, INC. Quarterly Review

PRESIDENT'S MESSAGE

Follow the Discipline

The fourth quarter of 1998 brought a powerful recovery from a dismal third quarter. Investor sentiment turned from doom and gloom to wide-eyed optimism, with irrational exuberance reigning supreme once again. Calendar 1998 therefore, goes down in the record books as another up year (except for the small cap stocks) in the longest most powerful bull market on record.

Close scrutiny however, reveals that 1998 was in fact materially different than the preceding five or six years of this great bull run. In calendar year 1998 the markets became extremely volatile which is often the first sign in a paradigm shift in investor psychology. Speculative fever has reached a frenzied peak with investors moving in and out of stocks with what could only be described as reckless abandon. In short, people are behaving more and more like riverboat gamblers and less and less as prudent investors.

One evidence of this can be seen by looking at the unbelievably excessive valuations that a select group of large cap brand name companies are selling at. Investors seem oblivious to the undeniable fact and reality that there is no economic or business valuation basis that could justify these lofty valuation levels. A second area for concern is the virtual frenzy in internet speculation. Momentum reigns supreme and if the stock price is rising, people are buying and prudence and sound evaluation is for sissies. Calendar year 1998 brought us a great lesson and most investors are ignoring it. Investor psychology can change on a dime and the momentum on the downside is usually more powerful and severe than on the upside. Simply stated fear is a significantly more powerful emotion than greed.

As we hope most of you realize, at EDMP, we do not adhere to a stock market driven approach or investing philosophy. We design and build our portfolios to perform for the long run by investing in sound businesses at or below (if we get lucky) their true economic value. We trust your capital to the managers of these companies to create future shareholder value through the competent management of these enterprises. We believe that this great bull market we have enjoyed over the past few years actually masks both the prudence and power of our proven philosophy. Business Perspective investing works in all markets simply because it is based on sound principles of business and economics. Today's market, driven by speculative fever and marked by unsustainable and excessive overvaluation makes our results look anemic in contrast, but only for our newest clients. The reason for this disparity is quite rational and exciting for the investor with the longer view. We will only invest when we can buy a company that is selling at a market price at or below its fair value. Today that means buying what the market doesn't like. Common sense and history however will clearly demonstrate this to be a safer and more reliably powerful method of investing. In short you buy low today and sell higher tomorrow. If you buy at a very high valuation today, the odds of selling higher tomorrow become greatly diminished. Investing in temporarily out of favor companies implies a slow start, and we have tried to caution our newest clients to expect this. If the price of an inexpensive stock declines further, this should be viewed as an opportunity to accumulate more shares unless the long-term outlook has materially changed. However this approach also implies a stronger finish resulting from the leverage and safety of buying cheap. This long-term approach makes sense and works because investing is a marathon not a sprint. In racing it is rare that the leader through the first turn wins the race; this applies to investing as well.

At each year end we review the performance of each client's account for the last quarter, last year and from inception to date. This process provides us a perspective that unfortunately our individual clients and their consultants do not have. Each portfolio managed by EDMP is custom designed, and therefore we do not have a "track record", we have instead hundreds of different track records. It is remarkable how consistent both the pattern and the results are because, although each account is different, the philosophy behind them is generally the same. Our portfolios tend to start slowly (a euphemism for lousy early results) and accelerate as time goes on.

The following is a summary of 1998 performance results for accounts we manage that are at least three years old. Our reason for sharing this information is to illustrate that intelligent patience pays off for business perspective (value/growth) investors. For comparison we would like to point out a few important benchmarks; the S&P 500 did 26.7% in 1998, the Dow Jones did 16.1% in 1998 and the Russell 2000 was down -3.5%:

EDMP PORTFOLIOS 3YRS OR OLDER - 1998 RESULTS	
% OF CLIENT PORTFOLIOS	**1998 RATE OF RETURN**
9.7 %	**50% or Better**
23.7 %	**40% or Better**
51 %	**30% or Better**
66 %	**20% or Better**
89 %	**15% or Better**
100 %	**10% or Better**

Most of the above portfolios started out very slowly. Many had only averaged a one or two percent annualized return over the first 18 months to two years. The large majority now have annualized inception to date results equal to, or in many cases, substantially better than even the S&P 500, and we believe we achieved these results at substantially lower risk due to the low valuations at which the portfolio holdings were purchased. We have a disciplined investment approach, we follow it diligently, regardless of what the general markets are doing, and it pays off handsomely in the long run.

More importantly our disciplined approach is based on sound business and accounting principles that dictate that we will only invest in a company when its stock price rationally reflects its current and future operating prospects. The stock market on the other hand is rarely so rational and as we have pointed out so many times, can at any moment in time significantly overprice or underprice a company. One of the most powerful attributes of our philosophy is the recognition of these deviations from value and therefore the ability to exploit it to our long-term advantage. Perhaps the following clarification of our philosophy will help.

The first important point we would like to make is that we do not follow a trading discipline wherein a stock will be sold simply because it has declined further than a preset margin (such as the 8% used by William O'Neil in "Investor's Business Daily"). That is an approach followed by short-term traders, who usually do not even know what the underlying company does. Price weakness can often be caused simply due to the short-term vagaries of investors (out of favor, cap size, etc.) even though there is nothing changed within the company's operating results or long-term prospects. We will sell when the price is down only if we believe the future prospects have materially changed.

We have found over and over that a well-run company that is actually experiencing operating weakness will recover within a reasonable period of time, and go on to achieve outsized rates of return if we use patience while monitoring the plans set in motion by management. Obviously, the most important part of this process is to carefully review the plans that management has set out in order to return to historic levels of profitability, including their response to external forces (such as slowing of Medicare reimbursement).

We have already experienced this with many of the companies that were previously showing losses in many of your portfolios. We understand how discouraging and unsettling it is to hire a money manager you barely know, and then see several of the companies they buy you go down, especially when the general market appears so strong. This apparent negative is actually the fundamental secret to our success and perhaps the most important safety net we offer. When you stop and think about it, buying bargains is the heart and soul of our philosophy. Unfortunately, bargains are not found amongst the companies that investors are enamored with and therefore, buying in a frenzied manner. Bargains are found instead within the companies that for various reasons as discussed above, investors are temporarily avoiding. We wish we knew how to find the perfect bottom, but we don't….nor does anyone else. We research every company thoroughly and strive to look beyond the short run to identify companies with good management that operate in growing industries and that can be bought at a discount to their future potential. In the short run, (3 years or less) this invariably leads to mixed results. Occasionally we fortuitously hit the perfect bottom, more often then not we don't. On the other hand the vast majority of the time we buy sound and even excellent long-term value. The following is a partial listing of companies that fell anywhere from 10% to 50% or more in price after originally purchased: AFLAC, Amgen, Analog Devices, Alza, Applied Materials, Barnes & Noble, C-Cube, Cicso, Circuit City, Compaq, Cracker Barrel, DII Group, Brinkers, EMC, EDS, Hewlett Packard, Home Depot, Intel, Jacobs Engineering, Merck, Michael's Stores, Motorola, Mylan Labs, Newbridge Networks, Oracle, Outback Steakhouse, Philip Morris, Pfizer, Reynolds & Reynolds, Shaw Industries, and Wal-Mart. Each of these companies went on to significantly exceed our 15-20% annual objective. It took the requisite three to five years in most cases for this to happen, but the results were certainly worth the wait. These results are no accident or a function of luck; these results are a product of a proven and sound philosophy that works in the long run.

In fact, other companies acquired several of our holdings in 1998 at a significant premium to our cost basis (Echlin, DSC Communications, R.P. Scherer and U.S. Surgical). These were cases where other companies recognized the underlying value, and were willing to pay a substantial premium to "unlock the value". Had we sold these holdings because they were down in price, we would have missed out on a huge rate of return (average of 75% return).

Although we have experienced this with many of our holdings in the past over a three year cycle, we have not forfeited opportunity cost because the subsequent recovery is followed by P/E expansion, which ultimately has provided annualized returns in excess of our 20% goal. It is too often the easy route to sell a company simply because the stock price is down even though the long-term prospects remain intact. The greater and often overlooked risk, lies in holding companies whose stock price far exceed any reasonable measure of valuation.

A look beneath the surface of the market averages gives a more telling picture as to what is occurring in today's environment. The S&P 500 and NASDAQ 100 have shown strong gains in 1998, powered higher by an extremely narrow list of the largest capitalization stocks, particularly the large pharmaceuticals and large technology names. In the meantime, the Russell 2000, which holds many smaller companies, was down 4%, with more than half the stocks down 30% or more. The valuation disparity is historically unprecedented. Listen to 90% of the advisors on CNBC and they will recommend the same names, i.e. Microsoft, Cisco, Pfizer, Home Depot, General Electric, Wal-Mart, Bristol Myers, Lucent, etc. They want to be where the momentum is. Beware when everyone moves to the same side of the boat.

The extreme stock market gyrations of 1998 created more volatility and activity in our client portfolios than you or we are accustomed to. Our oldest, most established accounts experienced the loss of many old and quite profitable friends like Merck, Microsoft, Home Depot and many others. Our newest accounts, especially those that started in the spring of 1998 or the fall of 1997 went on a wild roller coaster ride. Several of the companies we bought fell dramatically by the end of the third quarter and many recovered substantially by year end. Unfortunately, when a company's stock price falls from where it was first bought, the company becomes a quote unquote "dog". Admittedly, sometimes this turns out to be true. On the other hand these companies can more often be deemed a bargain or buy of a lifetime.

As an appendix to this quarter's letter we are presenting several widely held companies that we believe fall into the bargain category. We have tried to provide a broad enough list so that each of you will find at least one or more that you personally own. Generally speaking we believe these companies are selling at prices and valuations that are cheap relative to their long term growth and operating potential. The "market" with its short term orientation obviously doesn't like them today; that's why they are cheap. In the past, and we are confident, in the future this is where we have made, and will make our biggest and perhaps safest gains.

In summary, we invest in a company on what we believe it will be worth in three to five years at the lowest risk adjusted basis possible. The lower the price relative to value that you pay today, the more you stand to make tomorrow. Obviously, we did not buy many of our newest names at the very bottom, and admittedly in some cases far from it. As we have stated many times in the past, the market often dramatically misprices a company relative to its true worth. Time is what ultimately separates the investor from the speculator. Our approach is to invest in good well managed companies only when we can buy them sensibly. As has happened many times in the past, this does not always lead to instant success and gratification, but the long term payoff is extraordinary.

It remains our privilege to serve you, and as always, remember, *Earnings Determine Market Price, always have, always will.*

Sincerely,

Charles C. Carnevale
President

Selected Review of Holdings Experiencing Price Weakness

Andrew Corporation

Andrew is a 61 year old company and is a global supplier of wireless communication products and systems. With the advent of personal communication systems (PCS) in the developed countries, and with developing countries moving directly to Wireless systems, such wireless infrastructure equipment as coaxial cables, antennas and towers account for more than half of Andrew's sales. Weakness in the economies of Asia and temporary slowdown in the U.S. has caused the price to weaken. However, its products are essential for much of the world's wireless needs. The company has recently opened facilities in China and Brazil, both of which have huge wireless phone requirements. Although increasing competition from smaller competitors has pressured margins, Andrew will continue to receive the bulk of new business because of its global presence and the fact that it is highly regarded for providing the highest levels of quality and service. The lower stock price provides an opportunity to accumulate additional shares as demand for its products is inevitable. As orders begin to increase, the company can leverage its fixed costs which will lead to sharply higher gross margins and a much higher stock price, if we exercise the patience to reap the reward.

Cooper Tire & Rubber

Cooper is one of the U.S.'s biggest replacement tire makers. The company also makes inner tubes, hoses, vibration control products and automotive sealing systems. The company continues to invest in new plants and remains an efficient, low cost producer and is now expanding into Europe. The Company's earnings were weakened during the period from 1994 through 1996 as stubbornly high rubber prices hurt margins. EDMP began to accumulate this stock aggressively in 1997 as the unusually high rubber prices began to abate, with the inevitable increase in the company's margins. However, the sudden devaluation of Asian currencies has caused cheaper Asian replacement tires to hurt overall pricing and again pressure margins. A slowdown in purchases by Sears (a major customer) to work off excess inventory compounded the issue. We are now beginning to see a significant increase in Asian currencies versus the dollar which will begin to ameliorate the pricing issues. The company recently adopted the "Cooper 21" strategic plan to position itself as a global leader and innovator. Cooper has had the highest sales growth and margins of the top 10 global tire companies since 1990. At a P/E multiple of only 12 times 1998 earnings, we should be considering adding to positions.

Crown Cork & Seal

Crown Cork & Seal is the largest producer of packaging containers, including cans and bottles. The company has acquired 20 companies during the 1990's, culminating with the acquisition of Carnaud, a large European based packager. Now that the acquisitions are essentially complete, the company is in the process of restructuring its excess manufacturing facilities. This process has slowed short-term earnings, but should significantly increase profitability over the long-term, while also creating a company that is unmatched in its ability to support multinational companies with a wide range of packaging products. The current stock price has been particularly depressed due to several issues, including a weak tomato pack in the Western U.S., weak vegetable pack in Southern Europe and a very strong U.K. pound, which particularly hurts Crown because it makes imports into the U.K. cheaper. However, each of these issues are clearly temporary. The company's ability to generate significant cash flows will greatly assist the company's balance sheet going forward (including a large share repurchase), particularly since its capital expenditure requirements going forward will be greatly reduced. The stock should be considered a core holding and pays a dividend at twice the market average. The company is trading at nearly half its historical P/E ratio and offers enormous 3 to 5 year appreciation potential.

Genesis Health Ventures

The stock price has experienced a significant decline. Much of the decline has resulted from investor fears that the new Medicare reimbursement for skilled nursing care and related services will significantly pressure operating margins. Several issues are important as to why we believe this position should be held. First, although all nursing companies' stock prices are under pressure, the long-term demographic need for eldercare is essential. Genesis is one of the best run companies with proven management capable of adapting to the changing environment. Secondly, the company is unique in its ability to provide a broad range of services (all encompassing eldercare) including assisted living, nursing, pharmacy, rehabilitation therapy and physician services. Third, the company is known for its ability to enable its patients to return to their homes at a higher percentage basis than its competitors. Fourth, the company has attracted several HMO's to provide full eldercare services for their managed plans because Genesis has proven its ability to provide quality care at a reasonable price. Fifth, the stock is extremely undervalued and is trading below its book value.

Although operating performance in the short-run will be affected, the inherent need to provide quality care for the elderly cannot be ignored. We have seen other cases where the government has retracted reimbursement cuts as the community and physician needs become a concern. We suspect this will be the case here, which would result in an immediate and sharp run up in its stock price. The long-term potential remains intact, particularly as the company adapts to the changing environment. Management has a great record in improving underperforming assets and has several options for value enhancement. We would rather add to the position than sell the stock here.

PHYCOR

The stock has experienced a dramatic decline because the physicians practice management industry attracted too much capital, was subsequently mismanaged and several competitors were forced into bankruptcy. Although Phycor is the best run company, it has not escaped the industry turmoil. However, it has stayed financially strong, with continued positive free cash flow generation and a solid balance sheet. Most of the doctor groups that Phycor manages have stated they are very pleased with the added benefits Phycor has provided. The one risk we cannot quantify is the ability of Phycor to keep the remaining doctor groups together in the midst of this difficult environment. As a result, and despite the fact that Phycor remains a compelling value, we have decided to flag the stock for possible sale. However, the position's liquidation is dependent on two events. First, we would await the announcement of fourth quarter results to gauge whether any signs of immediate progress are apparent; and second, allow tax loss selling through December 31 to be completed.

As a further sign of the excessively cheap price that Phycor has been beaten down to, Warburg Pincus, a highly regarded investment and venture capital firm announced on December 28 that they had acquired a 7.3% stake in Phycor because they view Phycor as "an attractive investment based on the company's business prospects and strategy, and is very supportive of the management team and its ability to execute this strategy". The implications of this investment are that Warburg believes, as we do, that Phycor has been unduly punished for the errors of its competitors, and second, this may be a prelude to taking the company private. We would estimate a privatization offer to be in the area of $11-14 dollars, which could imply a double from current levels. We would be imprudent to liquidate here until we find further resolution to these matters.

Richfood Holdings

Richfood is one of the U.S.'s largest wholesale food distributors with a strong regional focus in the Mid-Atlantic region. The company has a very consistent history of growing earnings. It has achieved the highest rates of return on capital than any of its competitors. The company recently elected to purchase several of its supermarket customers in order to better control its distribution. The integration of these companies has caused short-term earnings weakness causing the stock to decline. We believe the company will be successful in this integration process, particularly given that management is well recognized for their prowess in the grocery industry. The stock is currently undervalued in our view, and the price weakness represents an opportunity to add to our position.

United States Filter

U.S. Filter is the world's leading producer of water treatment and recycling equipment. Through an aggressive acquisition program, it has become a one-stop provider of all aspects of this vital resource. The recent acquisition of Culligan makes the company the leading provider of bottled water and other consumer water products. The company has received its first municipal contract to completely take over the water facilities management for a California county. Increased worldwide demand for water purification should also provide significant long-term earnings opportunity. Recent share price weakness reflected investor fears of recession despite the fact that the Company's diversification would greatly mitigate the effects of economic weakness. The price fell from its 52 week high of 44 all the way down to 11 at the height of the October panic. We added to all our holdings where possible between the prices of 12 and 15 as an uncommon value opportunity. Although the price has recovered to the low 20's, there is still significant upside opportunity as the company's P/E is only 14 times 1998 earnings with a growth rate in excess of 20%. Throughout this period of stock price weakness, the company has consistently achieved its earnings objective.